



**Connecticut Working Families**

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March 22, 2010

**Finance Committee**

**Co-Chairs Eileen Daily and Cam Staples**

**Testimony in support of SB-485 AN ACT CONCERNING TAX FAIRNESS, and SB-478 AN ACT CONCERNING INTRA-CORPORATION PAYMENTS TO RELATED ENTITIES.**

**Submitted by Lindsay Farrell, Organizing Director**

Thank you for hearing testimony today on these important bills.

Working Families supports **SB-485** for the simple reason that when large corporations dodge their fair share of taxes, the rest of us all pay more for it. Taxpayers and small businesses have to pick up the slack to balance our state budget.

We all rely on our state government for vital public services and for our quality of life – for education, for health care, for public safety, for infrastructure. Businesses too, depend on our state's infrastructure and our productive and well-educated workforce. In this budget crisis, every dollar counts, everyone is sacrificing. Every dollar a large and profitable corporation shifts out-of-state is one more dollar that has to come from the taxes of working people and small businesses.

Small businesses are often called the job creation engine of our state. But these tax avoidance schemes puts small businesses at a competitive disadvantage, because they don't have teams of accountants and lawyers to figure out and exploit every loophole.

Actually, Connecticut has one of the lowest corporate tax rates in our region on large businesses. Connecticut's business taxes, as a share of state economic activity, are the second lowest in the nation. Since 1987, corporate tax breaks have increased from just under \$3 million in our state budget to over \$300 million. But this 100-fold increase in corporate tax breaks hasn't translated into more jobs. Simultaneously, for low- and middle-income taxpayers feel like their burden is more and more.

23 other states now have combined reporting legislation, hardly making adopting this policy an unusual or risky move for Connecticut. Of course, opponents of this kind of legislation will claim that closing these loopholes will drive businesses away. This claim does not seem plausible, given that the broad majority of large national corporations in Connecticut are already operating in states with combined reporting requirements.

We also support **SB-478** to eliminate a specific tax loophole that was recently exposed in the news. Press clips about this practice are attached.

Simply put, AT&T was exposed for selling the use of its own logo to itself, as a scheme to send profits made in Connecticut to a Nevada subsidiary to avoid paying taxes on them. Attorney General Blumenthal opened an investigation into the practice to see why both consumers and taxpayers appeared short-changed.

The reason this practice looks illegal is because it should be. No doubt AT&T is not the only corporation that engages in this kind of scheme to shift profits out-of-state. This deceptive practice should be banned.

We want large corporations to stay in Connecticut, and to thrive here. But we want them to play by the rules and pay their taxes, just like the rest of us.

We urge passage of both these bills.

Thank you.

News

## SBC avoided paying taxes to state on \$144.5M

Tuesday, June 16, 2009

By Luther Turmelle, North Bureau Chief

Utility regulators have contacted the state Department of Revenue Services about an audit of AT&T's operations in Connecticut that indicates the company sent \$144.5 million in ratepayer money to an affiliate in Nevada over 2 1/2 years, thus avoiding having to pay taxes on the income here.

State Department of Public Utility Control Chairman Donald Downes wrote a letter May 29 to DRS Commissioner Pamela Law regarding the audit done by Barrington-Wellesley Group.

Downes' letter said the audit found that between June 6, 2002, and Dec. 31, 2004, the telecommunications company "paid royalties to a non-regulated affiliate, SBC Knowledge Ventures, that holds ownership of SBC's intellectual property."

The company now known as AT&T was known as SBC Communications until the Texas telecommunications giant acquired AT&T Corp. in November 2005. SBC Knowledge Ventures is a subsidiary of the parent company, just as AT&T's Connecticut operations are.

"The department wishes to apprise you of these royalty payments because ... the Connecticut General Statutes may require such royalty payments that are normally deductible business expenses to be added back in computing net income for purposes of the Connecticut corporation business tax," Downes wrote.

"The department believes that these royalty payments have continued to the present time. The BWG (Barrington-Wellesley Group) report states in its findings and conclusions that ... royalty payments to SBC Knowledge Ventures, a Nevada trademark holding company, are not subject to Connecticut income tax."

A review of an audit of AT&T's Connecticut operations by Ernst & Young indicates the practice of the company's local operations paying royalties for using logos and other trademark material in the state continues. The audit for AT&T, which was released March 13 to AT&T corporate officials in Texas, states that \$46.7 million in royalty payments was made by the company's Connecticut operations.

State Attorney General Richard Blumenthal said Monday he is "deeply concerned and stunned that it appears that AT&T is charging ratepayers for the use of its logos."

"The DPUC is raising a concern that this is a tax issue, but I think this is a consumer issue as well," Blumenthal said. "My office will look into this to determine if there is some sort of reasonable explanation for this."

DPUC spokeswoman Beryl Lyons said Downes sent the letter to Law because the potential tax issues are outside of the

DPUC's purview.

Lyons said the BWG audit of SBC's Connecticut operations was done because all companies regulated by the DPUC are periodically audited.

Sara Kaufman, a DRS spokeswoman, said Monday that because of taxpayer privacy concerns, she could not comment on whether agency officials had launched a full-fledged investigation into AT&T as a result of the audit and Downes' letter.

AT&T spokesman Chuck Coursey did not respond to a request for comment Monday.

Prior to October 1998, Connecticut had its own telephone company, Southern New England Telecommunications. SNET merged with SBC Communications and later became known as AT&T.

The old SNET moniker survives, though; both of the audits refer to AT&T's Connecticut operations by the SNET name.

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News

## Blumenthal launches AT&T probe

Wednesday, June 17, 2009

By Luther Turmelle, North Bureau Chief

State Attorney General Richard Blumenthal said Tuesday his office is launching an investigation into why AT&T sent \$144.5 million in ratepayer money to an affiliate in Nevada, thus avoiding having to pay taxes on the income here.

Blumenthal said he is launching the investigation "because some of the company's practices in doing this seem to run right to the edge of illegality."

The investigation was launched the same day that a New Haven Register story detailing Connecticut ratepayer money being sent by AT&T to a Nevada subsidiary appeared in the newspaper.

"I think AT&T owes the state of Connecticut and its customers all of the facts in this matter, nothing less than the truth," Blumenthal said. "My office is investigating these charges — on behalf of both consumers who paid them, and Connecticut taxpayers who suffer revenue losses when royalties are diverted tax-free out of state. AT&T must be held accountable for every tax-free dollar — nearly \$145 million documented so far — questionably siphoned away from AT&T consumers in Connecticut."

An audit of AT&T's Connecticut operations done by Barrington-Wellessley Group for the state Department of Public Utility Control found that between June 6, 2002, and Dec. 31, 2004, the telecommunications company "paid royalties to a non-regulated affiliate, SBC Knowledge Ventures, that holds ownership of SBC's intellectual property." The company now known as AT&T had been called SBC Communications until the Texas telecommunications giant acquired AT&T Corp. in November 2005. SBC Knowledge Ventures is a subsidiary of the parent company, just as AT&T's Connecticut operations are.

Chuck Coursey, a spokesman for AT&T in Connecticut, said the DPUC's independent auditors "did not find that the royalty payments violated or otherwise ran counter to any regulatory rules or decisions."

"If the Department of Revenue Services chooses to look into this matter, AT&T will work cooperatively with DRS," Coursey said. "AT&T believes its treatment of these payments was appropriate and consistent with trademark law and tax requirements."

Blumenthal said that even if his investigation determines AT&T has not done anything illegal, "the end result ought to be a change in tax laws, not just here in Connecticut but at the federal level as well."

Details regarding AT&T's practices were of enough significance to warrant DPUC Chairman Donald Downes notifying Department of Revenue Services Commissioner Pamela Law of the audit's findings in a May 29 letter. Downes said in the letter that state statutes "may require such royalty payments that are normally deductible business expenses to be

added back in computing net income for purposes of the Connecticut corporation business tax."

DRS officials have refused to confirm or deny whether that state agency has launched an investigation into AT&T practices. But a review of an audit of AT&T's Connecticut operations by Ernst & Young indicates the practice of the company's local operations paying royalties for using logos and other trademark material in the state continues.

The audit for AT&T, which was released March 13 to AT&T corporate officials in Texas, states that \$46.7 million in royalty payments was made in 2008 by the company's Connecticut operations.

Blumenthal said he is particularly incensed that AT&T should be charging Connecticut ratepayers for the "use" of the company's logos.

"Pleading poverty, bleeding jobs and then charging \$145 million for using its logo is both insult and injury to AT&T's consumers and Connecticut taxpayers," Blumenthal said, noting that the company has laid off 520 service technicians in the state since 2000. "Consumers would surely rather go without the AT&T logo affixed to Connecticut buildings or bills than pay these unconscionable costs."

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